Joint Budget Committee Staff
Nonpartisan Budget Analysis for Colorado's Legislature

Memorandum

To: The Joint Budget Committee
From: Sam Rickman, JBC Staff, (303) 866-2981
Date: February 4, 2026
Subject: PERA Legislation Proposal

Overview

On January 16, 2026, the Public Employees Retirement Association of Colorado (PERA) submitted three legislative proposals for consideration by the Joint Budget Committee (JBC). The rationale for the proposed legislation is to delay the projected Automatic Adjustment Provision (AAP), and to strengthen PERA's ability to meet the statutory target date of full funding by 2048[1]. JBC Staff presents this memo to inform the committee's decision about whether they wish to pursue proposal this as JBC-sponsored legislation.

Proposal 1 – Give PERA greater discretion in actuarial allocation of the Direct Distribution:

The first proposal would give PERA greater discretion to allocate the Direct Distribution payments across division pension trust funds based on an actuarial allocation, as opposed to distribution based on payroll.

Proposal 2 – Reallocate employer contributions to Health Care Trust Fund:

The second component would reduce the employer contribution to the Health Care Trust Fund (HCTF) from 1.02% to 0.52%, reallocating those funds to the pension trust funds of the four divisions that contribute to the HCTF (State, School, Local Government, and Judicial Divisions).

Proposal 3 – Combined results of both Proposals 1 and 2:

The third component would combine the above two proposals into a single bill.

Background

Senate Bill 18-200 authorized an annual Direct Distribution payment in the amount of $225 million to help PERA reach full funding by the year 2048. During the 2025 interim, PERA's actuaries conducted an analysis of the impacts of this legislation since its enactment. As part of that work, the actuaries evaluated each of its five divisions independently to assess division-specific risks of triggering the Automatic Adjustment Provision (AAP).

[1] Outlined in S.B. 18-200

Under current law, the AAP is triggered when PERA's blended funded ratio—which aggregates the funded status of all division trust funds, weighted by their respective liabilities—falls below 98 percent. A concern here is that funding shortfalls in a single large division can materially increase the likelihood of a system-wide AAP adjustment, even if some divisions are well funded or improving. Conversely, very strong funding ratios in smaller or lower-risk divisions might not offset weaknesses in higher-risk divisions and may reflect that contribution resources are not being optimally targeted to reduce overall AAP risk. Under the current funding mechanism, PERA actuaries project that the next AAP will occur in 2034, followed by another in 2039. Importantly, AAP adjustments are generally undesirable, as they may increase employer and employee contribution rates while reducing the annual increase for benefit recipients.

A key finding of the analysis was that the School Division represents the largest source of AAP risk, while other divisions are at relatively low risk of triggering the AAP.

Relevant 2025 Legislation: S.B. 25-310

The Joint Budget Committee sponsored S.B. 25-310 last year, which included a provision giving PERA limited flexibility to allocate the $225 million Direct Distribution differently, if doing so would prevent an automatic adjustment from occurring. This increased the amount of flexibility given to PERA, but that authority is limited to times when an AAP is projected to occur in the current fiscal year. The proposed legislation would expand that discretion, allowing PERA to adjust the Direct Distribution annually.

Proposed Legislation

Proposals 1 and 2

Proposal 1 - Give PERA greater discretion in actuarial allocation of the Direct Distribution:

This proposal would grant PERA ongoing statutory authority to allocate the annual $225 million Direct Distribution among division trust funds on an actuarial basis, rather than allocating the funds based on prior-year payroll. The intent is to allow PERA to direct contribution resources toward divisions that most affect the system's blended funded ratio and, in turn, the likelihood of triggering an AAP.

The School Division represents the largest share of PERA's unfunded actuarial accrued liability (UAAL) and has the lowest contribution adequacy relative to other divisions. As a result, actuarial modeling indicates that, if this authority were granted, PERA would likely allocate most or all of the annual $225 million Direct Distribution to the School Division for the foreseeable future.

According to the actuarial analysis, this approach produces two primary effects:

1. **Delay of the next AAP adjustment.**
   The next projected AAP would shift from 2034 to 2040, resulting in an estimated reduction in employer and employee contributions of approximately $1.1 billion and an increase in benefit payments of approximately $95 million over that period.
2. **Changes to projected full funding timelines across divisions.**
   The School Division's projected full funding date improves by one year, from 2050 to 2049. Conversely,

the projected full funding dates for the State and Denver Public Schools (DPS) divisions move later, from 2043 to 2046 and from 2035 to 2036, respectively.

JBC staff concludes that the primary policy rationale for Proposal 1 is the potential to delay an AAP adjustment, thereby reducing future contribution increases for employers and members and preserving benefit growth for retirees, while accepting later full funding dates for some divisions as a tradeoff.

Proposal 2 – Reallocate employer contributions to HCTF:

This part of the legislation would reduce employer contributions to the Health Care Trust Fund (HCTF) from 1.02% of reported salaries to 0.52%, reallocating those funds to the pension trust funds of the four divisions that contribute to the HCTF (State, School, Local Government, and Judicial Divisions). The intent is to delay the next projected AAP, without impacting full funding obligations.

PERA actuarial analysis determined that a 0.39% rate is necessary to meet the statutory target of 2048 for full funding. The HCTF is currently projected to be fully funded by 2030, with this proposed legislation delaying that full funding projection date until 2035. PERA contends that this delay does not have a significant adverse effect to the funding horizons, and these resources would be better placed contributing to the pension trust funds.

PERA contends these risks are justified by the following benefits:

1. **Delay the next AAP Adjustment**

   The next projected AAP would shift from 2034 to 2038, resulting in an estimated reduction in employer and employee contributions of approximately $710 million and an increase in benefit payments of approximately $62 million over that period.

JBC staff note that the projected fully funded dates mostly do not change as a result of this proposal. As a result, staff contends that the main benefit of this proposal is also to delay the projected AAP adjustment.

Proposal 3: Combined results of Proposals 1 and 2

PERA actuarial analysis of these proposals projects that if both were enacted into law, the next AAP adjustment would not take place until 2044, resulting in an estimated reduction in employer and employee contributions of approximately $2.15 billion and an increase in benefit payments of approximately $167 million over that period.

Rationale for JBC-Sponsored Legislation

Staff notes that the committee must determine whether this proposal is legislation the Joint Budget Committee wishes to sponsor or whether it would be more appropriately considered through other policy committees. Staff raises this question because the proposal does not require a new appropriation; rather, it reallocates existing ongoing appropriations and contribution flows. Staff believes that this proposal reflects a long-term policy question, with considerable impacts on PERA's strategy in reaching full funding. Accordingly, staff asked PERA to explain why consideration by the JBC is warranted.

PERA offered the following rationale in support of JBC sponsorship:

- The proposal directly affects the $225 million annual Direct Distribution to PERA, which was established through prior JBC-sponsored legislation.

- Under current law, PERA's actuaries project that the next AAP adjustment would occur in 2034. An AAP adjustment would increase employer contribution rates and is projected to result in approximately $34 million annually in additional state employer costs, raising potential future budgetary concerns.
- The Committee must also consider the Governor's statewide R3 request (discussed below), which PERA indicates could increase the likelihood of an AAP adjustment. PERA asserts that enactment of PERA's proposed legislation would provide additional flexibility to manage and mitigate that risk.

Interaction with Statewide R-03

PERA indicated that enactment of the Governor's statewide R-03 request would increase the likelihood of triggering an AAP adjustment and, for that reason, PERA does not support the request. PERA contends that the PERA's proposed legislation would improve their ability to absorb the impacts of the R-03 request by reducing the risk of an AAP adjustment. PERA further contends that if the R-03 request were denied, and this proposed legislation enacted, this would put them in the strongest possible position to achieve full funding by the targeted date and avoid significant additional costs caused by an AAP adjustment.

January 16, 2026

The Honorable Representative Emily Sirota
Chair, Joint Budget Committee
Colorado General Assembly
200 E. 14th Avenue, Third Floor
Legislative Services Building
Denver, CO 80203

Subject: PERA Legislative Proposals for Consideration in 2026 Session Budget Package Bill

Chair Sirota and Members of the Colorado Joint Budget Committee:

I write on behalf of the Colorado Public Employees' Retirement Association (PERA) to seek your support in sponsoring a bill to enact the proposed statutory changes recommended during our recent hearing with the Joint Budget Committee on November 19th, 2025. These proposals are designed to strengthen PERA's long-term sustainability without requiring any new funding, and to reduce the likelihood of triggering the Automatic Adjustment Provision (AAP) that increases contributions for both members and employers and lowers benefits for retirees when PERA's funding falls below the level necessary to meet the full funding goals established in SB 18-200. An actuarial analysis supporting the following changes is attached for your review.

1. **Actuarial Allocation of Direct Distribution:**
Under current law, a $225 million annual direct distribution is to be paid to PERA each July 1 and PERA is required to credit these funds proportionally to the participating division trust funds based on their reported payroll for the prior plan year ending December 31. Recent legislation (Senate Bill 25-310) brought forth by the Joint Budget Committee and passed by the General Assembly provided limited flexibility to adjust the allocation of this direct distribution on an actuarial basis only if by doing so would avoid an AAP adjustment for the current year AAP analysis, as performed. We propose further expanding this discretion by adopting an actuarial allocation method of the direct distribution payment to be applied every year into the future, to provide the best opportunity to reduce the likelihood of triggering future AAP adjustments affecting all divisions.

2. **Reallocation of Employer Contributions to Health Care Trust Fund (HCTF):**
Under current law, a portion of the statutory base employer contribution rate, equal to 1.02% of reported salaries for each of the State, School, Local Government, and Judicial Divisions, is transferred into the HCTF for health care benefits. Reallocating 0.50% of the current 1.02% contribution rate allows for more effective use of legislated employer contributions to address pension contribution shortfalls and mitigates the likelihood of triggering an AAP adjustment. The HCTF is projected to be fully funded in five years at the current 1.02% contribution rate. Reallocating 0.50% toward pension funding would leave the HCTF with a sufficient contribution rate of 0.52% and a projected full funded date well before 2048, while accelerating pension liability payoff without jeopardizing healthcare funding. This reallocation means employers continue paying the same total rate, but proportioned to where the dollars are most effective. In doing so, we reduce the likelihood of future AAP adjustments while making more efficient use of the employer contributions already identified for payment.

Both proposals require statutory changes and have clear implications for the State's fiscal picture, but they require no additional state appropriations or new funding mechanisms, which is critical in the context of current budgetary pressures. The adoption of both proposals, considering existing contribution rates, will only strengthen the potential impact of each individual proposal.

The Joint Budget Committee has been integral to PERA funding reforms in the past and given this history, the technical nature of these proposals, as well as the interplay with other budgetary decision items related to PERA under consideration, we respectfully request that the Committee sponsor these changes in a bill as part of the FY2026-27 budget package.

Thank you for your continued partnership in stewarding PERA's resources on behalf of the employees of more than 500 government agencies and public entities in the state of Colorado and the more than 1 in 10 Coloradans who are members of PERA. We look forward to working with you and your staff on these proposed measures. Attached is an actuarial analysis providing additional detail, but please feel free to reach out with any questions or concerns.

Sincerely,

Andrew Roth

Andrew Roth
Chief Executive Officer/Executive Director
Public Employees' Retirement Association of Colorado

CC:
Vice Chair Senator Jeff Bridges, Joint Budget Committee
Senator Judy Amabile, Joint Budget Committee
Representative Kyle Brown, Joint Budget Committee
Senator Barbara Kirkmeyer, Joint Budget Committee
Representative Rick Taggart, Joint Budget Committee
Craig Harper, JBC Staff Director

Attachment: Actuarial Analysis of PERA Legislative Proposals

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November 17, 2025

Koren L. Holden, FCA, EA, MAAA
System Actuary
Public Employees' Retirement Association of Colorado
1301 Pennsylvania Street
Denver, CO 80203-2386

Re: Actuarial Analysis of PERA Legislative Proposals

Dear Koren:

As requested, we have estimated the impact of proposed legislation affecting PERA. The letter includes the results of our analysis, which is based on the valuation results and trust fund amounts as of December 31, 2024. Please note the calculations and exhibits contained herein are only complete in their entirety. These measurements may not be appropriate for purposes other than those described in this letter.

Background

Under C.R.S. § 24-51-414(1)(a), an annual $225 million direct distribution is paid to PERA each July 1, and PERA is required to credit these funds proportionally to the participating Division Trust Funds based on their reported payroll for the prior plan year ending December 31. The only exception is that the annual direct distribution can be actuarially allocated if it allows for an Automatic Adjustment Provision (AAP) adjustment to be avoided, pursuant to C.R.S. § 24-51-414(4)(b)(I).

Under C.R.S. § 24-51-208(1)(f), a portion of the statutory base employer contribution rate, equal to 1.02% of pay for each of the State, School, Local Government, and Judicial Divisions, is transferred to the Health Care Trust Fund (HCTF) to fund health care benefits.

PERA has proposed legislation affecting the above statutes in order to bolster contributions for the divisions with the greatest need and to minimize the likelihood of an AAP trigger that would increase contributions and reduce the Annual Increase (AI) cap.

Proposal #1: Actuarial Allocation of Direct Distribution

As mentioned above, the annual $225 million direct distribution currently is allocated to the Division Trust Funds based upon reported payroll for the prior year with limited exceptions. Under this proposal, PERA would have full flexibility to allocate the direct distribution across the Division Trust Funds in such a way to minimize the likelihood of an AAP trigger in any future year.

The School Division represents the largest portion of PERA's total Unfunded Actuarial Accrued Liability (UAAL). The School Division's current contribution rates when compared to their actuarially determined contribution (ADC) represents the lowest percentage of all the Division Trust Funds. Thus, increasing the proportion of direct distribution allocated to the School Division would result in the most favorable impact to the blended AAP ratio in the next testing year and subsequent years. Therefore, under this proposal, it is most likely that the entire annual $225 million direct distribution would be allocated to the School Division for the foreseeable future.

The following table (1) summarizes the effect of allocating the entire direct distribution to the School Division by identifying the year each division is projected to be fully funded.

Table 1 – Estimated Projected Year the Funding Ratio Reaches 100%

Division Trust Fund	Current Law	After Revised Allocation of Direct Distribution
State	2043	2046
School	2050	2049
Local Government	2035	2035
Judicial	2030	2030
DPS[1]	2035	2036

Graphs of these projections are provided in the Appendix.

For each of the Division Trust Funds, the revised allocation methodology results in a projected funding ratio of 100% prior to 2048, except for the School Division, which is projected to be fully funded one year earlier than under current law.

Since the proposal would reallocate contribution dollars required under current law, no additional contributions would result.

Under current statutes and projections using the valuation actuarial assumptions, the next AAP adjustment (increasing contributions and reducing the AI cap) is expected to occur in 2034, with a subsequent AAP adjustment (increasing contributions and reducing the AI cap) projected in 2039. Under the proposed revised allocation methodology, the next AAP adjustment (increasing contributions and reducing the AI cap) would be expected to occur in 2040. The six-year delay of the next AAP adjustment would decrease contributions for employers and members by approximately $1.1 billion and increase in benefit payments under the AI provisions by approximately $95 million over that period. A summary of the contribution and benefit payment impacts of this proposal is provided in Exhibit A of the Appendix.

[1] The DPS Division is not scheduled to receive a portion of the Direct Distribution until 2030, pursuant to SB 25-1105.

Proposal #2: Reallocation of Employer Contributions to HCTF

Under this proposal, the employer contribution rate for the HCTF would decrease from 1.02% to 0.52% of pay, and this 0.50% of pay would be reallocated to the pension trust funds for each of the four divisions funding the HCTF (State, School, Local Government, and Judicial Divisions).

The following table (2) summarizes the effect of reallocating employer contributions from the HCTF to the four divisions funding the HCTF.

Table 2 – Estimated Projected Year the Funding Ratio Reaches 100%

Division Trust Fund	Current Law	After Revised Allocation of Employer Contributions to HCTF
State	2043	2043
School	2050	2050
Local Government	2035	2034
Judicial	2030	2030
DPS[1]	2035	N/A

A graph of these projections is provided in the Appendix.

Note that additional contributions reallocated from the HCTF may not change the year a division is projected to become fully funded; however, under this proposal, all four participating divisions are projected to be slightly better funded each year going forward.

Since the proposal would reallocate existing contribution dollars required under current law, no additional contributions would result.

Under current statutes and projections using the valuation actuarial assumptions, the next AAP adjustment (increasing contributions and reducing the AI cap) is expected to occur in 2034, with a subsequent AAP adjustment (increasing contributions and reducing the AI cap) projected in 2039. Under the proposed revised contribution allocation, the next AAP adjustment (increasing contributions and reducing the AI cap) would be expected to occur in 2038. The four-year delay of the next AAP adjustment would decrease contributions for employers and members by approximately $710 million and increase in benefit payments under the AI provisions by approximately $62 million over that period. A summary of the contribution and benefit payment impacts of this proposal is provided in Exhibit B of the Appendix.

Reducing the annual contribution rate to the HCTF would extend the projected funding period for the HCTF by approximately five years from 2030 to 2035, well before the targeted 2048 funding date. Also, the reduced HCTF employer contribution rate of 0.52% still is in excess of the 0.39% ADC, determined as of December 31, 2024, for the HCTF.

[1] Note that a portion of the DPS employer contribution rate is allocated to fund the DPS HCTF, not the HCTF.

Proposal #3: Combined Results of Proposal #1 and Proposal #2

Under this proposal, PERA would have full flexibility to allocate the direct distribution across the Division Trust Funds in such a way to minimize the likelihood of an AAP trigger in any future year and the employer contribution rate for the HCTF would decrease from 1.02% to 0.52% of pay, and this 0.50% of pay would be reallocated to the pension trust funds for each of the four divisions funding the HCTF (State, School, Local Government, and Judicial Divisions).

The following table (3) summarizes the effect of reallocating the entire direct distribution to the School Division and reallocating employer contributions from the HCTF to the four divisions funding the HCTF.

Table 3 – Estimated Projected Year the Funding Ratio Reaches 100%

Division Trust Fund	Current Law	After Both Proposed Legislative Changes
State	2043	2046
School	2050	2049
Local Government	2035	2034
Judicial	2030	2030
DPS	2035	2036

A graph of these projections is provided in the Appendix.

For each of the Division Trust Funds, the revised allocation methodology results in a projected funding ratio of 100% prior to 2048, except for the School Division, which is projected to be fully funded one year earlier than under current law.

Since the proposal would reallocate existing contribution dollars required under current law, no additional contributions would result.

Under current statutes and projections using the valuation actuarial assumptions, the next AAP adjustment (increasing contributions and reducing the AI cap) is expected to occur in 2034, with a subsequent AAP adjustment (increasing contributions and reducing the AI cap) projected in 2039. Under both of the proposed revised contribution allocation proposals above, the next AAP adjustment (increasing contributions and reducing the AI cap) would be expected to occur in 2044. The ten-year delay of the next AAP adjustment would decrease contributions for employers and members by approximately $2.15 billion and increase in benefit payments under the AI provisions by approximately $167 million over that period. A summary of the contribution and benefit payment impacts of this proposal is provided in Exhibit C of the Appendix.

Reducing the annual contribution rate to the HCTF would extend the projected funding period for the HCTF by approximately five years from 2030 to 2035, well before the targeted 2048 funding date. Also, the reduced HCTF employer contribution rate of 0.52% still is in excess of the 0.39% ADC, determined as of December 31, 2024, for the HCTF.

Comments

The following comments must be kept in mind when reviewing the results presented in this letter:

- This analysis is based upon the results of the Actuarial Valuation and Review as of December 31, 2024 for the Division Trust Funds, dated June 4, 2025, the Actuarial Valuation and Review as of December 31, 2024, for the Health Care Trust Funds, dated May 28, 2025, and the Signal Light Reporting for the Hybrid Defined Benefit Plan Based on the Results of the December 31, 2024, Actuarial Valuation, dated July 28, 2025 (Signal Light Report). The actuarial assumptions and methods are the same as those used in these reports.

- All projections for the analysis use the 'Signal Light Basis' from the Signal Light Report. These projection results are calculated on a deterministic basis, assuming all assumptions are met over the projection period. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions.

- Segal results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

- The measurements shown in this analysis may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

- Segal makes no representation or warranty as to the future status of the Plan and does not guarantee any particular result. This document does not constitute legal, tax, accounting or investment advice or create or imply a fiduciary relationship. PERA is encouraged to discuss any issues raised in this report with the Plan's legal, tax and other advisors before taking, or refraining from taking, any action.

If you need any further information regarding this analysis, please do not hesitate to contact Segal. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely yours,

Matthew Strom, FSA, MAAA, EA
Senior Vice President and Actuary

Brad Ramirez, FSA, MAAA, EA
Vice President and Actuary

Tanya Dybal, FSA, MAAA, EA
Vice President and Actuary

Melissa A. Krumholz, FSA, MAAA
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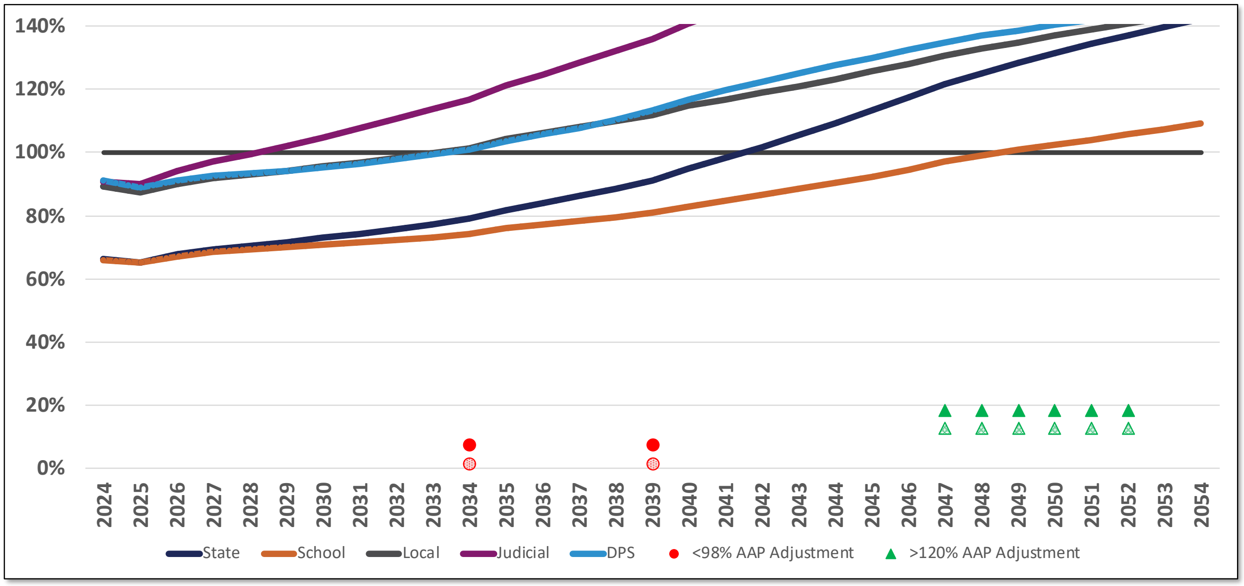
Yori Rubinson, FSA, MAAA
Vice President and Actuary

Appendix

Proposal #1: Actuarial Allocation of Direct Distribution

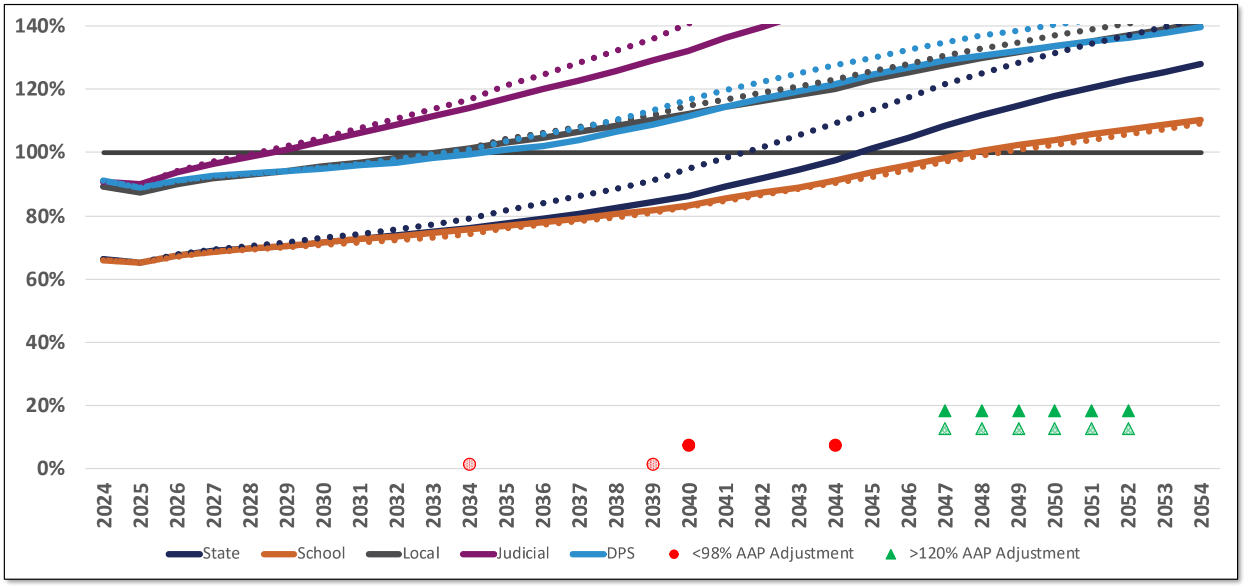
The following graph shows baseline projection results for the **State, School, Local Government**, **Judicial** and **DPS** Divisions as of December 31, 2024.

Baseline Projection of Funded Percentage and AAP Adjustment



The following graph shows projection results for the **State, School, Local Government**, **Judicial** and **DPS** Divisions under Proposal #1 if Direct Distribution dollars were allocated actuarially (“baseline” results are shown as dots for comparison).

Projection of Funded Percentage and AAP Adjustment under Proposal #1



Appendix

The next AAP adjustment currently is projected to occur in 2034, with a subsequent AAP adjustment projected for 2039. Adopting an actuarial allocation for the annual direct distribution is projected to delay the likelihood of the next AAP adjustment by about six years, from 2034 to 2040, and would further delay the likelihood of any subsequent AAP adjustments, as well.

The following table shows a summary of total contributions (from both members and employers) and benefit payment changes due to the six-year delay of the next AAP adjustment that is projected under Proposal #1.

Exhibit A: Impact of Proposal #1 on Total Contributions and Benefit Payments for Fiscal Years 2034 through 2039

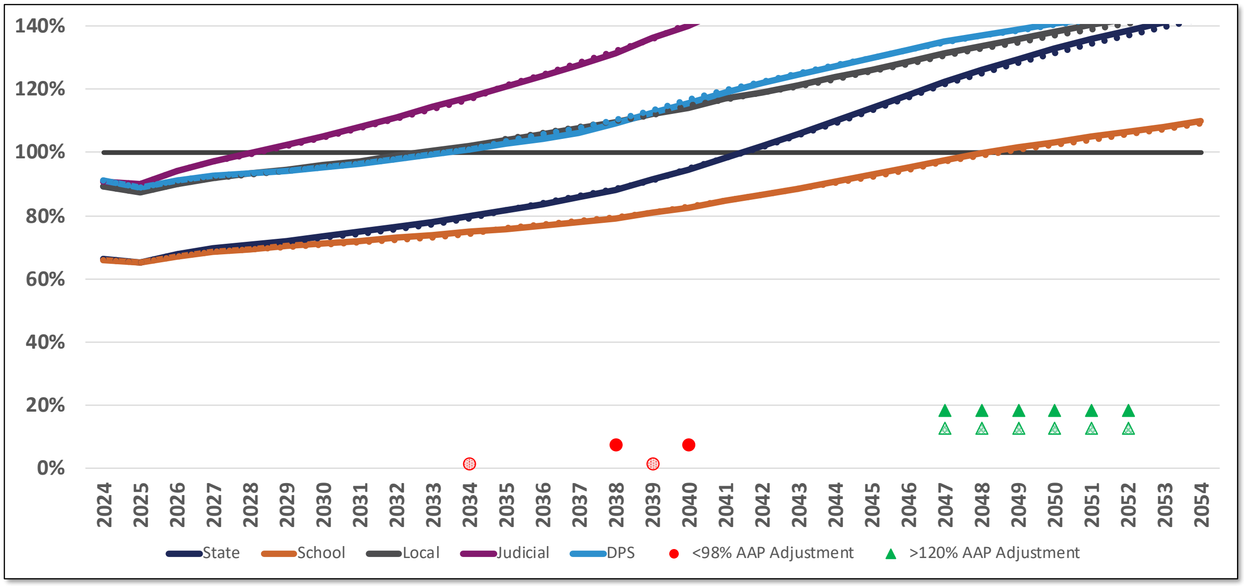
Division Trust Fund	Decrease in Total Contributions ($ millions)	Increase in Benefit Payments ($ millions)
State	$342	$32
School	594	51
Local Government	81	6
Judicial	5	1
DPS	78	5
Total	$1,100	$95

Appendix

Proposal #2: Reallocation of Employer Contributions to HCTF

The following graph shows projection results for the **State**, **School**, **Local Government**, **Judicial** and **DPS** Divisions under Proposal #2 if the HCTF employer contribution allocation was reduced by 0.50% for the State, School, Local Government, and Judicial Divisions ("baseline" results are shown as dots for comparison).

Projection of Funded Percentage and AAP Adjustment under Proposal #2



The next AAP adjustment currently is projected to occur in 2034, with a subsequent AAP adjustment projected for 2039. Reallocating 0.50% of pay from the current 1.02% of pay HCTF employer contribution to the pension trust funds for the State, School, Local Government, and Judicial Divisions is projected to delay the likelihood of the next AAP adjustment by about four years, from 2034 to 2038, and would further delay the likelihood of any subsequent AAP adjustments, as well.

The following table shows a summary of total contributions (from both members and employers) and benefit payment changes due to the four-year delay of the next AAP adjustment that is projected under Proposal #2.

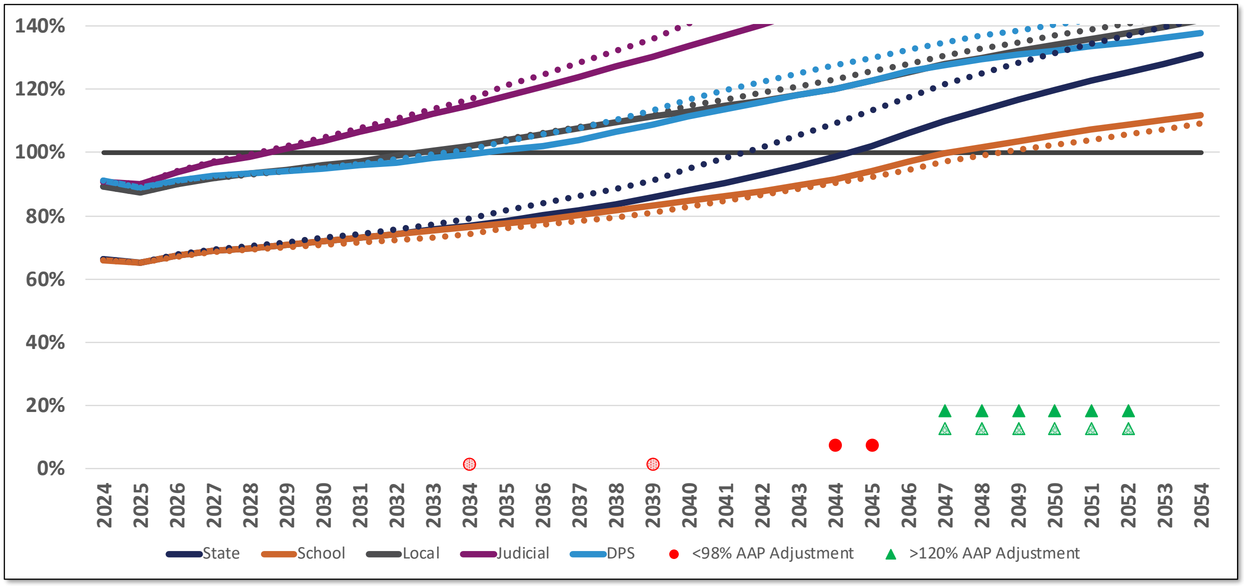
Exhibit B: Impact of Proposal #2 on Total Contributions and Benefit Payments for Fiscal Years 2034 through 2037

Division Trust Fund	Decrease in Total Contributions ($ millions)	Increase in Benefit Payments ($ millions)
State	$221	$21
School	384	33
Local Government	52	4
Judicial	3	1
DPS	50	3
Total	$710	$62

Proposal #3: Combined Results of Proposal #1 and Proposal #2

The following graph shows projection results for the **State, School, Local Government**, **Judicial** and **DPS** Divisions under Proposal #1 and Proposal #2 if Direct Distribution dollars were allocated actuarially, and if the HCTF employer contribution allocation was reduced by 0.50% for the State, School, Local Government, and Judicial Divisions ("baseline" results are shown as dots for comparison).

Projection of Funded Percentage and AAP Adjustment
under Proposal#1 and Proposal #2



The next AAP adjustment currently is projected to occur in 2034, with a subsequent AAP adjustment projected for 2039. Adopting an actuarial allocation for the annual direct distribution and reallocating 0.50% of pay from the current 1.02% of pay HCTF employer contribution is projected to delay the likelihood of the next AAP adjustment by about ten years, from 2034 to 2044, and would further delay the likelihood of any subsequent AAP adjustments, as well.

The following table shows a summary of total contributions (from both members and employers) and benefit payment changes due to the approximate ten-year delay of the next AAP adjustment that is projected as a combined effect under Proposal #1 and Proposal #2.

Exhibit C: Impact of Proposal #1 and Proposal #2 on Total Contributions and Benefit Payments for Fiscal Years 2034 through 2043

Division Trust Fund	Decrease in Total Contributions ($ millions)	Increase in Benefit Payments ($ millions)
State	$668	$57
School	1,161	89
Local Government	158	11
Judicial	11	1
DPS	152	9
Total	$2,150	$167